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BUDGETS FOR USTR AND ITC FOR FISCAL YEAR 1988

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

FEBRUARY 27, 1987

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BUDGETS FOR USTR AND ITC FOR FISCAL YEAR 1988

FRIDAY, FEBRUARY 27, 1987

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:07 a.m. in Room SD-215, Dirksen Senate Office Building, the Honorable Spark M. Matsunaga (chairman) presiding.

Present: Senators Matsunaga, Daschle, and Durenberger.

[The press release announcing the hearing follows:]

[PRESS RELEASE]

INTERNATIONAL TRADE SUBCOMMITTEE CHAIRMAN MATSUNAGA ANNOUNCES BUDGET HEARING FOR THE OFFICE OF THE U.S. TRADE REPRESENTATIVE AND THE U.S. INTERNATIONAL TRADE COMMISSION

Washington, D.C.—Senator Spark M. Matsunaga (D., Hawaii), announced Wednesday that the Subcommittee on International Trade of the Senate Committee on Finance will hold a hearing on the authorization of appropriations for fiscal year 1988 requested by the Office of the U.S. Trade Representative (USTR) and the U.S. International Trade Commission (ITC).

"We will be taking a close look at the budgets submitted by the USTR and the ITC. Both agencies have heavy workloads. The USTR particularly will be called upon in the upcoming year to undertake important and complex international negotiations, including a new round of multilateral negotiations and talks with Canada relating to a possible free trade agreement," he said.

"We want to be assured that enough resources and personnel are available to these two agencies to enable them to carry out their critical functions in the area of international trade."

The hearing will be held on Friday, February 27, 1987, at 10:00 a.m. in Room SD-215 of the Dirksen Senate Office Building.

Senator MATSUNAGA. The subcommittee will come to order. As chairman of the Subcommittee on International Trade, I am pleased to be able to welcome today representatives of two of the most important trade agencies in the federal government to testify on their respective budget request for the 1988 fiscal year.

International trade is a subject of primary concern, not only to the members of this committee, but to many of the members of Congress during this session.

The Senate Finance Committee has already held a number of hearings regarding the international trading position of this country. The chairman of the full committee, Senator Bentsen, of Texas, has stated his desire to move expeditiously to address our trade problem with the aim of making American business more competitive against international competition.

The U.S. Trade Representative and the International Trade Commission will have an important—perhaps a seminal—role to play as America confronts its trade problems in the coming years. The USTR is the focal point of our trade relations with foreign countries. As Ambassador Yeutter mentioned in his testimony last week, the USTR has never been busier than during the last 18 months due to its bilateral trade activities. Negotiations for the removal of foreign barriers to trade have been intense in a number of fronts, and have stretched personnel and resources to the limit. With the success of the Administration in launching the new Uruguay round of multilateral trade negotiations, the burden and responsibility on the USTR will be compounded. I believe, and I sense a similar view among many of my colleagues, that this committee wants to be certain that the Office of the U.S. Trade Representative has all of the resovrces necessary to carry out these responsibilities at this critical time.

The International Trade Commission's role is that of an independent agency in providing an objective analysis of the effects of trade on the U.S. economy. This role will be of great importance in the evaluation of potential actions during the Uruguay round of multilateral trade negotiations.

In addition, the ITC's analysis of the effects of imports on American forms will continue as the basis for many of the decisions so important to domestic firms facing intense, and sometimes, unfair competition from foreign imports.

I am pleased to note that both agencies have proposed at least some increase in their budgets for the next fiscal year in order to meet their increased workload. This is in stark contrast to hearings we held earlier this week on the Administration's budget request for the U.S. Customs Service.

With these opening remarks, I will ask the first witness, the Deputy United States Trade Representative, Mr. Woods, to begin. We would be happy to hear from you. I undertand you are accompanied by your assistant, Mr. Doyle.

STATEMENT OF THE HONORABLE ALAN WOODS, DEPUTY U.S. TRADE REPRESENTATIVE, WASHINGTON, DC, ACCOMPANIED BY MR. MICHAEL DOYLE, ASSISTANT U.S. TRADE REPRESENTATIVE FOR ADMINISTRATION

Mr. WOODS. Thank you, Senator. I am Alan Woods, the Deputy U.S. Trade Representative, and I am accompanied here today by Michael Doyle, who is the Assistant U.S. Trade Representative in charge of Administration.

We are obviously pleased, as we always are, to have an opportunity to testify before this committee. The U.S. Trade Representative's budget authorization request for fiscal year 1988 is $15,248,000,000, and 146 positions. We believe this accurately reflects the work we will need to undertake to carry out the President's program for opening foreign markets, enforcing U.S. trade laws, and developing the kind of forward looking trade policies that will ensure America's competitiveness into the twenty-first century.

At the same time, ours is a lean budget authorization request. The new moneys and staff we require, we believe, reflect the needs we anticipated before this subcommittee last year, namely, the resources for the Uruguay round of multilateral trade negotiations in the GATT. Our budget also deals realistically with costs we are incurring as a function of the introduction of the Federal Employee Retirement System, the recent federal pay raise, a significant rent increase, and cost adjustments in Geneva which have arisen as a result of the dollar's decline against the Swiss franc.

The supplemental budget request for fiscal year 1987, which we have submitted along with our fiscal year 1988 budget authorization request, reflects the fiscal year 1987 costs of these changes.

For fiscal year 1988, and with respect to the fiscal year 1987 supplemental, we are requesting no-year funds. No-year funding will allow us to manage our resources rationally. Exchange rate changes whether up or down, force us to deal with changes in the costs to our Geneva operations.

USTR is an organization which has traditionally provided U.S. taxpayers with a high payoff. The payoff from our work during fiscal year 1986, and thus far in fiscal year 1987, has been high indeed. We expect no less in the future.

In fiscal year 1988, we will be heavily involved in the most complex phase of the Uruguay round negotiations. In addition, we anticipate we will continue to carry a heavy bilateral negotiations workload that focuses on opening markets and addressing unfair trade practices that negatively affect U.S. businesses.

While USTR is a small organization, it is well suited to carry out the full range of work in which we are engaged. Internally, we can use what I like to call centers of excellence to ensure that all of the trade matters we handle are handled well.

Our bilateral offices play a lead role identifying the need for and conducting trade negotiations that are best carried out on a one-for-one basis.

Our sectoral offices for industry and services, agriculture and textiles play a point role on issues that involve products and services we trade with many nations.

For the Urugay round, we have established teams to match the negotiating structure of the GATT. We use them as our primary mechanism for developing and coordinating U.S. trade negotiating positions on all the new round issues.

No office or team in the USTR stands alone. Every one of our activities is closely linked to the agencies upon which we are most heavily dependent: the International Trade Commission, the Department of Commerce, the Department of Agriculture, the Department of the Treasury, the Departments of State and Labor.

The U.S. business community, through our private advisory system, also provides close linkages into USTR.

And Congress, through our congressional advisors on the Uruguay round, and through our congressional consultation process, also provides important a divice to USTR.

Through these critical linkages, USTR has and will continue to operate as if it were four or five times as large as it is, or needs to be. In addition to being well organized to handle our current and

projected workload, USTR is thinking about the future, particularly the future of its staff.

We have, for example, established a new SES candidate development program that will give our younger staff the foundation they need to move into management ranks.

We have also begun to set up a program that will eventually allow us to exchange staff, for limited periods of time, with the Department of State and other agencies. We are proud of both our work and our people. There is much to be done, but we are optimistic about the future.

If I may, I will submit a lengthier testimony for the record, Senator, and I will conclude my remarks with that and answer any questions you may have.

Senator MATSUNAGA. Your statement will appear in the record in full as if presented in full.

Ambassador Woods, USTR has embarked on an enormous and sensitive undertaking in the Uruguay round and I am pleased to see that you have asked for additional resources to handle this challenge. But do you really believe that five additional people is sufficient to do the job?

Mr. WOODS. Well, Senator, as I pointed out, we have, and we are operating in the Uruguay round management process in a team sense, and the teams are not just people who are located specifically in USTR. They are located in other agencies as well.

If USTR had to manage the Uruguay round on its own without reference to the rest of the government, indeed, we would have a difficult time. However, we don't operate that way. We depend very heavily upon the other agencies in the government to provide support and analytical capability.

In this context, for example, we supported a budget request for new round activities for the Department of Commerce, which amounts to about $4 million and about 70 positions. With that kind of support from other agencies, USTR can stay small and maintain the kind of short lines of communications we have within our agency, and be more flexible and effective than we would be with a large bureaucracy.

Senator MATSUNAGA. You say "assistance from other agencies." Have you specific figures as to the personnel level available from other agencies?

Mr. WOODS. Well, it very much depends. The one we have focused on, in the larger sense, has been the Department of Commerce because so much of our analytical capability on tariffs and tariff measures, as well as some of the current tariff measures, come from that agency. In the case of the Department of Commerce, they have requested, and the OMB has sent as part of the Commerce Department budget, a request for $4 million additional dollars and about 70 additional positions related to new round activity.

Senator MATSUNAGA. In the Uruguay negotiations, how many additional personnel will you have from other agencies?

Mr. WOODS. That is what I am saying. From the Department of Commerce, beyond USTR.

Senator MATSUNAGA. I was referring in my initial question to the next fiscal year.

Mr. WOODS. As am I. I am talking about fiscal year 1988. The Commerce Department has a request to add 70 additional people and to receive about $4 million additional dollars for fiscal year 1988 for the Uruguay round.

Senator MATSUNAGA. And the 70 will be assigned to USTR throughout the year?

Mr. WOODS. The 70 will be assigned, as I understand it, to Uruguay round activities in support of USTR, not to USTR. They will still be in the Commerce Department.

Senator MATSUNAGA. And what about control by USTR?

Mr. WOODS. Well, the way we work, Senator, we are a policy and negotiating agency. We work with other agencies constantly and they are part of our negotiating teams. We do not have, nor do we believe we need, direct management control over all those people. What we do need from them is the support that they provide through their analysis and their data collection systems, and through their support otherwise in negotiating activities. And that system has worked quite well in the past and we think will continue to work well in the future.

Senator MATSUNAGA. Do you think it would work better if rather than having the Commerce Department ask for additional funds and personnel so that it could assist you, that the USTR itself could have the additional funds and permanent personnel?

Mr. WOODS. Well, we have examined this issue quite closely over time. There are obviovsly positives and negatives to large organizations. USTR has historically been a small, lean organization, and we believe that is one of the reasons we have been effective.

There is always fear of change, I guess, Senator, in any bureaucratic organization; however, we think that in terms of the way we have operated in the past, a lean organization with very short lines of communications between the bottom and the top is the most effective in dealing with trade issues.

Senator MATSUNAGA. Well, are you suggesting that we do the same thing in Congress?

Mr. WOODS. I would hesitate to comment, sir.

Senator MATSUNAGA. You don't need to answer that.

Now, with a greater use of Section 301 by the Administration during the last 18 months, what effect have these time consuming negotiations had on the ability of the USTR staff to conduct their day to day business?

Mr. WOODS. In a sense, Senator, our day to day business is doing things like conducting 301 investigations. USTR obviously engages in multilateral and bilateral negotiations at all times. Some would probably argue we have depended on the 301 law too heavily to provide us leverage in those negotiations; and we have negotiated bilaterally without the use of trade law instruments too infrequently. I don't accept that. I think the world we live in right now requires the use of 301's in bilateral negotiations as effective leverage to reach conclusions.

We live in a very adversarial world in trade terms, and the use of that instrument is an adjunct to the other work we do in USTR. We have not found USTR to be understaffed when it comes to doing that.

Senator MATSUNAGA. How do you operate in dealing with the various trading partners? Do you have permanently assigned personnel to Canada, Japan, and the European Community?

Mr. WOODS. That is correct.

Senator MATSUNAGA. Or do you shift them?

Mr. WOODS. No. We have permanently assigned people. Our organization is in some degree a matrix type organization. We have people permanently assigned to regions of the world so that all regions are covered. We have people permanently assigned to our multilateral negotiation responsibilities. In addition we have people permanently assigned to functional activities dealing with specific industries, with agriculture, with textiles. Our general counsel's office leads the 301 negotiations in most instances. We have a bit of a matrix, So we pull together teams to deal with issues. A team might be led by somebody from a bilateral office, a multilateral office, or from one of our functional offices.

Senator MATSUNAGA. Now, as I understand it from the information I have received, you are outnumbered by three or four to one in dealing with the Japanese, for example. Do you have any language problems with the Japanese? Do you have permanently assigned people who speak the language, who can negotiate effectively because of their knowledge of the language? Or do the Japanese speak English to you at all times?

Mr. WOODS. Well, both actually. We have people in USTR who do speak Japanese. We also have people with whom we negotiate with from Japan who speak English. Most negotiations are conducted, however, through interpreters. That is because, frankly, we don't want to negotiate in Japanese and frequently they don't want to negotiate in English, because neither of us are looking for disadvantages, Senator. Interpreters seem to work pretty well. The negotiations obviously take longer when you do it that way. In addition we have a lot of informal meetings, some of which are conducted in Japanese, some of which are conducted in English.

Senator MATSUNAGA. Are your interpreters trained in the United States or in Japan?

Mr. WOODS. That depends on the individual interpreter. We do not look for specific training for the interpreters, most of when we get through the interpretive services at the Department of State.

Senator MATSUNAGA. Because from my own experience, I find that many a time interpreters can either break up a negotiation by misinterpretation or be really effective, almost as effective, sometimes even more effective, than the negotiators themselves.

For example, I was once in Japan with a group of nine members of Congress. Senator Muskie was leading the delegation. One issue was the mutual security Treaty that we have with Japan. Fortunately, I understood Japanese. The interpreter had made a grievous error in his translation. And at that point, Senator Muskie said, "well, if that's the way you feel about it, there's no sense of carrying on our conference here." And he closed his book and he stood up. I said, "Wait a minute, Ed. He didn't say that." The interpreter said that. And so I said, "let me ask questions of the Japanese representative who was the chairman of the Socialist Party. And then the communication problem was straightened out.

And the negotiations went on for seven hours thereafter, instead of ending after just two, to three minutes.

So I think the interpreter is very important. It is important for the interpreter to understand the custom as well as the language. Many a time, for example, if you ask a Japanese in the negative and the positive, you get different answers to the same question. If you asked, "Did you go to Hawaii?" And he responded, No," If you followed up with the question, "You did not go to Hawaii?" he would reply "Yes. And that is the way they respond.

I recall when I was practicing law, I had a very clever attorney on the other side, who would purposely confuse the Japanese witness on the stand by asking questions in the positive or negative form, in order to get the response he wanted. So the interpreter can be very important.

Well, I just cite this as an example.

Now, last week's hearing on mastering the world economy, Ambassador Yeutter was requested to provide the committee with the numbers of personnel assigned to the Canada trade talks, that is, the free trade talks. Do you have that information?

Mr. WOODS. I don't know that I have the precise numbers, but I think I could deal with it with some precision, Senator, if you would like.

Senator MATSUNAGA. Yes, we would appreciate that because our action may depend to a degree on what the figures are.

Mr. WOODS. First of all, Senator, we are hoping that most of the Canadian negotiating activities will be completed before the end of this fiscal year; some, we believe, will continue on into next year. And certainly congressional approval would not occur until the next fiscal year, but we are hoping to have those negotiations substantially completed at that time.

Again, let me also say, I think it is important not only to look at the people in USTR who are working on these negotiations, but also to have an appreciation that the negotiations are being conducted, as we normally conduct negotiations, by teams which include other agencies.

At USTR, we basically have three specialists leading the Canadian negotiations, Ambassador Murphy and the two people who are supporting him on a full-time basis. However, we have 14 negotiating teams, within the Government, which are staffed by other agencies such as the Department of Commerce, the Department of Treasury, the Department of State, and the Department of Agriculture. They are used to conduct part of our negotiations. We have used USTR services as a management link and umbrella for that activity.

In that context, I know the Department of Commerce has about 25 people, I believe, specifically assigned to the Canadian negotiation. There are some number of people at the Department of State that have this negotiation as part of their responsibility. I don't know the precise number there, but I think it is in the realm of 10 or so.

In the Department of Agriculture, it is an activity which consumes not specific individuals full-time but a number of individuals on a quarter or half-time or on a three-quarters time basis. I believe the number is about the same there.

Our negotiating team, taken together, is about as large as the 50 or 70 people that the Canadians have operating on it. They have just chosen as a matter, I guess you could say, of style, to place all of their negotiators in one office to deal with this issue separate from otherwise normal activities.

We have said we think we are better off having people on our negotiating team who are on the line, who deal with these issues day in and day out, and who will continue to deal with them after the Canadian negotiation is over. It is just a matter of differences in style of operation.

Senator MATSUNAGA. Well, thank you very much, Ambassador Woods. Do you have anything to add, Mr. Doyle?

Mr. DOYLE. No, nothing at all.

Senator MATSUNAGA. No. Well, I thought that with permission from the chair you might even say something despite what your boss said.

Mr. DOYLE. Well, just that I appreciate being here.

Senator MATSUNAGA. Well, thank you very much.

Mr. WOODS. Thank you very much, Senator.

[The prepared written statement of Mr. Woods follows:]

TESTIMONY OF

AMBASSADOR ALAN WOODS

DEPUTY UNITED STATES TRADE REPRESENTATIVE

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

SENATE COMMITTEE ON FINANCE

FEBRUARY 27, 1987

Mr. Chairman, I am pleased to appear before you to present the Fiscal Year 1988 budget authorization request of the Office of the United States Trade Representative (USTR).

The budget authorization request we have submitted to you has two dominant characteristics. First it accurately reflects the steps we must take in Fiscal Year 88 to improve America's international trade position. As such it requires the resources we will require to:

- o Aggressively implement the President's on-going program for opening foreign markets;
- o Actively enforce the trade laws of the United States, and
- o Develop, in concert with other agencies of the U.S. government, the kinds of trade policies and action programs that will ensure America's competitiveness into the 21st century.

Second, our budget is lean. It reflects not only the spirit of the Gramm-Rudman-Hollings legislation, but also our tight, no-nonsense operating style.

For FY 88, USTR requires a core budget of $15,248,000, and a staff level of 146 positions. The recurring portion of this request involves $14,948,000 and 146 positions. The difference, $300,000, addresses a one time expenditure.

The recurring portion of the USTR budget request for FY 88 is higher than our FY 87 base of $13,300,000 and 136 positions by $1,648,000 and 10 positions. The increases requested in USTR's resources reflect two important changes:

- o Externally driven changes in our basic operating costs, and
- o The initiation of Uruguay Round trade negotiations in the GATT.

In FY 88, USTR's basic operating costs will rise by $1,398,000 reflecting three new costs: a non-discretionary rent increase of $724,000; USTR's participation, at the level of $469,000, in the new Federal Employees Retirement System (FERS), and the 1988 cost of the three percent pay raise of this year, which will cost us $205,000.

In addition to these increases in our basic operating costs, we are beginning, even now, to incur expenses in connection with the new Uruguay Round of GATT negotiations. By FY 88, we will be engaged in the most complex and time consuming phase of these negotiations.

In order to meet this challenge, ten new staff positions will be required. Five of the new staff positions will be dedicated to substantive and managerial requirements of the negotiating round. The cost of these five new positions will be $240,000. The other five staff positions will allow us to shift a critical number of contract functions and functions that have been performed by reimbursable details into our core staff. This shift will increase the stability of USTR's operations and ensure continuity over the multi-year negotiations upon which we have embarked. On a recurring basis, we are also requesting an additional $10,000 in representation funds to support expanded representation requirements which stem from participation in the new negotiating round.

On a one time basis, we are requesting $300,000 to upgrade our computer capacity, bringing it to the level required to meet the demands of the Uruguay Round. Improved security as well as additional analytic capacity will result from this expenditure.

This past January, decisions were taken in the GATT which set the structure for the Uruguay Round of negotiations. The structure is a complex and demanding one, with its fifteen topical negotiating groups. In order to operate effectively, from the start, we need to ensure that appropriate resources are available to our negotiators.

In addition, we are requesting an FY 87 supplemental to cover one half of the cost of the recent federal pay raise, $77,000, and all of the proposed 1987 costs associated with the introduction of FERS, $168,000. We would also like five positions, without funds, to move ahead this year with our plans for shifting key support functions to an "in-house" basis.

Over the past two years, significant changes in the value of the dollar against the Swiss franc, have created difficulties for USTR, which has permanent operations in Geneva as well as Washington. To facilitate sound operations in the future, we are requesting that our total FY 88 request and our FY 87 supplemental funds be provided to us on a "no-year" basis. In particular, "no-year" funding will allow USTR to retain dollars in years in which the U.S. currency appreciates versus the Swiss franc, and spend them when a depreciation puts us in a shortfall position relative to our basic costs.

The budget authorization request we have submitted includes only those minimum costs we must incur to fulfill the role Congress intends for USTR. In FY 88, as in each of the past few years, the USTR's work load will be multifaceted and heavy indeed. To illustrate this point, I would like to outline for you some of the highlights of the past year, as well as some of our expectations about the work in which we will be engaged during the next two fiscal years.

Over the past eighteen months, we have made important progress in opening new markets for American products and services -- and in one important situation involving the European Community (EC) -- we fought hard and held on to markets that we might have otherwise lost.

To bring down the foreign trade barriers that impede U.S. exporters, this Administration has literally shifted gears. The shift is clearest when one looks at the way we are using Section 301 of the U.S. trade law -- the primary legal tool we have for attacking unfair trade practices. Until 1985, only industry had put this law to work. Now the full force of the U.S. government is in operating gear with respect to this law.

Since September, 1985, we have "self-initiated" eight Section 301 actions. Of these, we have brought seven cases to resolution. We expect to resolve the eighth case within the next few months. In addition, we brought four existing industry-initiated cases to resolution during the same period. Overall, this Administration has launched more than 60% of all the actions taken under Section 301 since that provision of our trade law was enacted.

Measured against any yardstick, these results are impressive -- not just in terms of the market access they represent, but because 301 cases are only one of the many kinds of trade policy and trade action efforts USTR undertakes each year.

Major bilateral and multilateral trade negotiations are a key way in which we seek to expand the international trade opportunities available to U.S. businesses. Central to our efforts are:

- Our "free trade" talks with Canada -- America's largest trading partner, and

- The new multilateral trade negotiations under the GATT which we launched last September in Punta del Este, Uruguay.

The "free trade" talks with Canada represent what may be our single most important endeavor for 1987. Merchandise trade flows between our two countries totalled $114 billion in 1986. We believe that these numbers will grow dramatically if we open up the border between our two nations. We also see a vast expansion of activity in the services sector, in investment flows, and in capital movements generally. These negotiations are complex and sensitive. Nevertheless, we hope to bring them to completion this year.

If we are successful in our "free trade" talks with Canada -- and we certainly will try to be -- implementation will require a good deal of attention in FY 88.

Last September, in Punta del Este, Uruguay, more than ninety nations joined together to launch a new round of multilateral trade negotiations in the GATT. The United States played a key role in this effort. First, we worked behind the scenes for several years to create a favorable climate for the initiation of new multilateral talks. Second, we made the case, throughout FY 86, for a comprehensive negotiating agenda. Our success in placing all of the issues that concern U.S. business on the negotiating agenda is as important as it was hard won.

The Uruguay Round will demand a significant level of attention from USTR during the remainder of FY 87, in FY 88 and for two years thereafter -- assuming that the negotiators can complete their work within the four year negotiating period which the participating nations agreed upon in Uruguay. Through this GATT negotiating round, we are seeking important improvements that will be of great benefit to U.S. businesses. Our objectives include:

- The creation of international trade disciplines for agriculture -- disciplines that are essential if governments are ever to let market mechanisms and open trading rules restore the economic health of the agricultural sector;

- The creation of international trading rules covering services -- the fastest growing sector of the American economy;

- The development of international agreements which will afford U.S. intellectual property the kind of protection it deserves;

- The creation of international disciplines covering investments, and

- o Strengthening the GATT dispute settlement process -- the glue that must hold the system of international trading rules together.

In addition to initiating these important bilateral and multilateral trade talks last year, we took a number of other steps to correct unfair trade practices and open foreign markets for U.S. business. For example, the Administration:

- o Took the first self-initiated action under Section 307 of the Trade and Tariff Act of 1984. As a result of this action, Taiwan agreed to eliminate export performance requirements in its automotive sector.

- o For the first time, used Section 305 to self-initiate investigations of Japan's supercomputer trade practices and the EC's meat inspection practices -- both of which could have negative effects on U.S. trade.

- o Conducted extensive bilateral negotiations with Canada concerning softwood lumber. As a result, Canada has imposed an export tax to neutralize the effects of the subsidies it provides to this industry.

- o Completed negotiations on ten bilateral investment treaties (BITs), and forwarded them to the Senate for its advice and consent.

The actions we take to enhance the opportunities for U.S. business are not focused exclusively on foreign markets. At times, what is needed is action that gives U.S. business a solid competitive chance in our own large market. Over the past year, we've acted forcefully in this arena as well. We have:

- o Successfully negotiated a renewal of the Multifiber Agreement (MFA) with expanded fiber coverage to prevent disruptive import growth in ramie, linen and silk-blend products. In bilateral negotiations we held increases in trade to less than 1 percent with four of our largest suppliers -- Taiwan, Korea, Hong Kong and Japan. We also negotiated much tighter agreements with several mid-level suppliers. In all, we established nearly 200 new quotas.

- o Used Section 201 of the trade law to take actions that will provide red cedar shakes and shingles manufacturers with the import relief they require while they restructure in order to successfully compete in the future.

Yet our work is still far from complete.

At $169 billion, our trade deficit remains far too high. Trade policy and the kinds of trade actions I have just described are important elements of a solution -- but they cannot carry us the whole way.

The need for a more comprehensive approach for addressing the issues that determine the international trade position of the United States, as well as the domestic competitiveness of U.S. business, is what led President Reagan to call upon his Cabinet to formulate a program that would ensure our competitiveness not just for today -- but for the next decade and the next century as well.

The Trade, Employment, and Productivity Act of 1987, which President Reagan spoke of in his State of the Union Address, and which he delivered to Congress last week, is the product of a wide-ranging effort to define the challenges that face America and to develop the means for meeting those challenges. The titles of the Act are as far ranging as its purposes.

The Trade, Employment, and Productivity Act of 1987 puts the U.S. government shoulder to shoulder with U.S. business and with American workers and farmers in an all out effort to guarantee a bright future for this nation.

As the foregoing suggests, in FY 88, as in the past, USTR must continue to be both a proactive and a responsive organization. Through well planned bilateral and multilateral negotiations, we will continue to seek systematic improvements in the international trade environment that benefit U.S. business and improve America's trade picture. At the same time, we must be prepared to respond immediately when new trade barriers are erected and new unfair trading practices are uncovered.

USTR, as an organization, is well prepared to act in these two dynamic modes. Our organizational structure is sound, and it is flexible enough to handle the parallel demands of the Uruguay round of multilateral negotiations, continuing bilateral negotiations and a full complement of unfair trade practice cases under Section 301 and other sections of our trade laws.

Our ability to operate simultaneously, and effectively, in all of these arenas is a function of:

- Multiple "centers of excellence" within our small organization, and

- The strong ties between USTR and those U.S. government agencies that most clearly complement and supplement our basic capacity: the Departments of Commerce, Agriculture, State, Treasury and Labor.

As the phrase "centers of excellence" implies, USTR has identified and developed specialized skill clusters to which important tasks can be entrusted. The "centers of excellence" concept is at work in USTR:

- Our bilateral offices play an essential role in identifying the need for and carrying out those negotiations which are best pursued on a one-to-one basis.

- Our General Counsel's office plays a similar role with respect to trade law actions, particularly the extremely labor intensive cases taken under Section 301.

- Our sectoral offices for industry and services, agriculture, and textiles act as our primary link to U.S. business and, when multi-country negotiations are required to address trade problems, these centers of topical expertise operate as USTR's front line.

- In its dealings with special access to the U.S. market, our GSP (Generalized System of Preferences) office also operates as a center of excellence for USTR;

- The "team" approach we are using to manage our preparations for the many negotiating topics in the Uruguay Round of multilateral negotiations is the final example of the way in which this concept has been put to work in USTR. The "team" approach we are using for the Uruguay Round is similar to that which USTR has traditionally used to deal with sectoral and functional negotiations.

The "team" approach to the Uruguay Round of GATT talks perhaps best illustrates the value of the "centers of excellence" concept. Negotiations in the Uruguay Round will be carried out by fifteen negotiating groups, each of which is responsible for one or a cluster of topics. To prepare for these negotiations, USTR has created matching interagency teams. The "lead" individual on each of these teams -- the individual who is responsible for ensuring that all of the preparatory work is completed -- is a USTR staff member. The other members of these teams are drawn from any and all U.S. government agencies whose experience and skills are relevant. The Department of Commerce, for example, is well represented on most of our topical "teams".

What we are doing, in effect, is breaking out of conventional molds to bring together the best the U.S. has to offer in each area where we will be seeking important gains from these multilateral negotiations.

In addition to effectively deploying the human resources we have on board -- and stretching our capacity -- by bringing skilled personnel from other agencies onto our "teams", USTR is actively planning for its own future.

Our is a relatively young, highly skilled and highly mobile staff. While USTR's staff turnover is low by comparison to other organizations, a portion of our staff does move on each year to responsible positions in the private sector, or to new responsibilities in other agencies.

To the extent possible, we seek candidates to replace them from our on-board staff. Through this process, we are building up the cadre of personnel from which we will, in future years, select new Assistant USTR's to direct our operations and new negotiators to represent us in important trade talks.

To foster the internal development program we favor, we have put into place a number of supporting activities:

- o We have established a new SES candidate development program through which we will train a pool of GS-15s in the skills they will require if they are to manage important USTR offices;

- o We have also put into place a long term program with the Department of State, through which they will send us personnel on detail, and through which we hope to offer our staff the opportunity to work, for a period of time, in another agency;

- o Finally, we continue to take advantage of internal opportunities to rotate our staff among our bilateral, multilateral and sectoral units -- thus giving them broad exposure to the full range of work in which we are engaged.

While USTR's staff remains the best measure of the organization's caliber, our systems are not being overlooked. The improvements we have made in USTR's planning and budgeting process, in particular, have increased our ability to operate quickly and effectively.

For example, we recently took advantage of the Gramm-Rudman-Hollings legislation to introduce zero-based programmatic budgeting at USTR. This change is reflected in our FY 88 budget. Over this past year, we have also created tools to help our senior managers set priorities for their areas of responsibility. This effort has resulted in better, decentralized resource decisions.

In conclusion, Mr. Chairman, USTR is better prepared than ever to meet the challenges that an increasingly complex global economy poses for our nation. The work in which we will be engaged in FY 88 will, in all likelihood, be more demanding than the work we concluded in FY 86, or the work in which we are engaged today.

Our responsibilities are many, but our demands in budget terms have always been tight. We pride ourselves on being a taxpayer investment with a very high payoff. Thus, while we are requesting some increased resources for FY 87 and FY 88, these requests are assuredly moderate. We are mindful of the disastrous impact our federal budget deficit is having on our economy and on our international trade position. Were it possible for us to request fewer resources, we would do so.

Mr. Chairman, I would be pleased to respond to any questions you might have.

Senator MATSUNAGA. Our next witness is the Honorable Susan Liebeler, the chairwoman of the United States International Trade Commission. Did I pronounce it correctly?

Ms. LIEBELER. Well, there is another way to pronounce it and that is Liebeler.

Senator MATSUNAGA. You prefer Liebeler?

Ms. LIEBELER. I think so, but that's all right.

Senator MATSUNAGA. All right.

As a lawyer, I would prefer Liebeler too.

(Laughter)

Ms. LIEBELER. Okay.

Senator MATSUNAGA. You may proceed.

[The prepared written statement of Mr. Woods follows:]

STATEMENT OF THE HONORABLE SUSAN LIEBELER, CHAIRMAN, U.S. INTERNATIONAL TRADE COMMISSION, WASHINGTON, DC

Ms. LIEBELER. Thank you, Chairman Matsunaga. I thank you for the opportunity to present the Commission's budget request for fiscal year 1988.

With me today on my left is Richard Arnold, the Director of our Office of Budget and Finance. Also present in the room today are three of the other Commissioners: Vice Chairman, Anne Brunsdale, and Commissioners Lodwick and Rohr.

Senator MATSUNAGA. Will you raise your hand as your name is called?

(A showing of hands)

Senator MATSUNAGA. All right. Thank you.

Ms. LIEBELER. The budget request I am presenting today is for $35,386,000 and 502 full-time positions. It has been unanimously approved by the Commission and we believe provides sufficient funding to handle the tasks for which we are responsible.

The $35,386,000 represents a real increase of $5,486,000 over fiscal year 1987 appropriations, which were $29,900,000, for the operations of the Commission. This increase reflects increases in nondiscretionary items and does not reflect an increase in caseload for the Commission.

The Commission's workload for import relief cases appears to have leveled off from its precipitous increase in 1982.

The Commission continues to plan for its September 1987 consolidation of all of its staff at our new facility at 500 E Street, Southwest. A great deal of planning has gone into this effort. We are beginning at this time to obligate the funds provided for the move.

The Commission produces a large number of periodic reports on specific commodities, as well as numerous studies and periodic reports to Congress and the Executive on specific industries and trade matters. One of the most ambitious of our current studies, which was requested by the Finance Committee, involves examining the competitiveness of several United States industries. The industries included in this study are textile mills, building block petrochemicals, steel sheet and strip, automotive parts, optical fibers, and oilseeds and by-products.

Other studies currently in progress requested by Congress or the President cover precious metal jewelry, a possible United States-

Canadian free trade arrangement in services, and Canadian live cattle and beef. With respect to the latter, we will be holding a hearing in Billings, Montana on April 16th. Next week, we will be holding hearings in Florida on preshipment inspection practices.

Concerning periodic reports, a recent GAO study has suggested that the Commission consider reducing the frequency and number of some of these reports. We will be working with both Congress and the Executive Branch to ensure that their requirements are met, and that our resources are being used effectively and efficiently.

Finally, I would like to emphasize that in preparing this budget the Commission was aware of the important role it plays in implementing the trade laws, and in providing data and analysis on various trade policy matters to the Congress and the Executive Branch.

There have been over 200 pieces of trade legislation, as you know, introduced thus far in the 100th Congress. Many of them have provisions which, if enacted, would impact our workload. If we find we need additional resources as a result of new tasks that Congress assigns to us through the passage of new trade legislation, or because of an increase in caseload, we will not hesitate to request additional funds.

I am pleased to answer any questions you may have, and thank you for the opportunity to be here today.

May my entire formal testimony be entered in the record?

Senator MATSUNAGA. Thank you very much, Chairwoman Liebeler.

I note that the ITC's investigative case load declined 10 percent in fiscal year 1986. Are you now anticipating an increased workload primarily based on the number of bills introduced in the Congress? What makes you believe that the case load will increase to the extent that you would need additional funds and personnel?

Ms. LIEBELER. Senator, we have not requested additional funds and personnel to cover an increased caseload. Our budget increase is for non-discretionary items, such as increased rent. None of that covers an increased caseload. We do however, have caseload projections which indicate it will increase.

Senator MATSUNAGA. You do project an increase?

Ms. LIEBELER. A slight increase, that's right.

Senator MATSUNAGA. Of how many percent?

Ms. LIEBELER. Let me look at those numbers. It looks like, in terms of total caseload, sir including the escape clause, the 337 cases, and the dumping and subsidy cases, about 13 percent.

Senator MATSUNAGA. So that making up for the 10 percent decrease of the case load of 1986, you will have an additional 3 percent.

Ms. LIEBELER. Approximately, yes. Now, our first quarter figures have not met those projections, but I think it is a little premature to base anything on first quarter results. People may be waiting for new trade legislation.

Senator MATSUNAGA. Are you called upon by the USTR to provide some assistance at any time?

Ms. LIEBELER. Oh, certainly.

Senator MATSUNAGA. You are?

Ms. LIEBELER. Yes. We provide a similar type of assistance to the Executive Branch that we do to the Legislative Branch on trade issues. We do studies under Section 332 of the Tariff Act.

Senator MATSUNAGA. Not by way of assignment of personnel for any period of time?

Ms. LIEBELER. Sometimes we do provide the Trade Representative's office with personnel. Right now we have three people on detail to the Office of the Trade Representative.

Senator MATSUNAGA. And do you find any difficulty in complying with requests for assistance under your present budget?

Ms. LIEBELER. No, sir, we do not.

Senator MATSUNAGA. So that in your proposed budget for the next fiscal year you have included the assistance which you anticipate you will be giving to USTR?

Ms. LIEBELER. Yes, sir.

Senator MATSUNAGA. Now, Madam Chairman, what demands do you expect to be made on the ITC as a result of the Uruguay Round, the free trade talks with Canada, technical assistance to USTR, and additional Section 332 studies? And what planning have you made in the budget to handle these demands, if any?

Ms. LIEBELER. Senator, we right now have recently completed one major study for the United States Trade Representative in connection with the Canadian negotiations. That study was completed in January, and our cost figures on that are $1.6 million, 45.3 work years. And that was a competitive evaluation of the U.S.-Canadian—I am sorry, that was the probable economic effects on U.S. industries and consumers of the establishment of a free trade area between the United States and Canada.

We have a second study underway which is a competitive evaluation of a proposed U.S. free trade arrangement in services with Canada. That is a study for which we have spent 6.1 work years and an amount of about $212,000.

We have also on the table—it will be done in March—a third study at the request of the United States Trade Representative for the purpose of reporting on a possible country of origin rule for application in the proposed U.S.-Canadian free trade area. And that is a much smaller study in terms of workyears and dollars.

We have an intellectual property study which is about to be instituted at the request of the U.S. Trade Representative, and would provide background for the Uruguay Round.

We have in planning for fiscal year 1988 taken into account as best we can, given what we know now, the level of support that we will be providing to them. Should our projections be incorrect and the demands upon us be larger than we expect, we are able to, shift resources. We use a team management approach for all of our studies, and frequently a demand in one area can be met by assigning analysts and economists from other offices. We have been successful so far. If we find we cannot do it, you will hear from us again.

Senator MATSUNAGA. Under Title 4 of the Omnibus Trade Act of 1987, as you know, certain amendments to Section 337 are proposed to enhance protection for intellectual property rights holders. Do I understand you to say now that your budget proposal incudes an anticipation of additional work because of this provision?

Ms. LIEBELER. Senator, I think it is hard to project what the effect of that legislation will be on the Commission's caseload. It may be that by providing additional protection to domestic intellectual property rights, there could be less litigation. People will settle faster and not be as prone to violate those property rights.

Also, there are various proposals, in addition to the Omnibus one. The Omnibus one would remove the injury requirement from registered trademarks, patents and copyrights, which is a large part of our workload. And that would make those cases much easier to litigate. They would go faster. And so even if there were more cases, they would be simpler.

So it is very hard to project the exact impact. The Administration bill has a provision in it which would take the domestic industry test away. And section 337 cases at the Commission would be that much simpler if that version were to go through.

Senator MATSUNAGA. Senator Daschle has arrived. He came in so quietly I didn't notice. And he is one of the quiet, effective workers. Senator Daschle, do you have any questions?

Senator DASCHLE. Thank you, Mr. Chairman.

I have learned a great deal just listening to your questions. But I had a couple of my own.

When you rely upon statistical and other information to make your decisions, what resources do you utilize?

Ms. LIEBELER. Do you mean outside the Commission, sir?

Senator DASCHLE. Well, either outside or inside. To begin, how do you accumulate the data from which you make the decisions?

Ms. LIEBELER. The Commission in its import relief investigations has a variety of means for obtaining data. It uses questionnaires extensively and obtains a great deal of data through questionnaires.

Senator DASCHLE. Questionnaires of whom?

Ms. LIEBELER. We send questionnaires to the domestic producers of the product in question; to the importers; and, depending on the case, perhaps to others. We hold hearings, and take testimony and receive evidence that way. The Commission also travels with the staff and the Commissioners sometimes making their own on-site inspections.

Senator DASCHLE. What banks of data do you have that you regularly avail yourself?

Ms. LIEBELER. Senator, it depends on the nature of the investigation. Many of our import relief investigations are very product specific, like seamless pipe number 36. And again, it would depend on the product. We have available the standard resource data banks available to scholars and the government, and we utilize those.

Senator DASCHLE. The basis for my questions go back to my own experience a couple of years ago. As we began discussing agricultural imports and exports, I wanted a complete compilation of all raw and processed agricultural imports of food, feed and fiber. We asked the Congressional Research Service to assist us in providing us with that data. In utter frustration, the CRS reported to us on numerous occasions their inability to go to a single source or even a multiple group of sources within the United States government to provide us with that information.

Ultimately, the Congressional Research Service had to go to the United Nations to get certain parts of the data that I requested. So what seemed to be a very simple request for a complete compendium of all information relating to raw and processed food, feed and fiber, even the CRS, for which I have an immense amount of respect, was not able to provide it. That led me to question the basis upon which you make your decisions and the data from which you derive your information. Apparently this country is woefully inadequate with regard to its data compilation. And I am wondering if that is a frustration for the ITC as well.

Ms. LIEBELER. Again, Senator, it would depend on the product in the case.

Senator DASCHLE. It depends upon the product.

Ms. LIEBELER. In agricultural cases, we do have sources of data available from the Department of Agriculture in standard data banks. Sometimes we have to create our own. I will be glad to discuss this further with our staff and perhaps provide you with more insight into this question.

Senator DASCHLE. I would like that. As we work through our bill this year, that is going to be one area that I would like to pursue with some determination. Whether or not we are ever going to be capable of coming to grips with much of this depends upon the information we utilize on a routine basis. And I find that, at least from the Senate or House perspective, we don't have that capacity.

I am hopeful that the ITC has an ability that goes way beyond that of an individval Senator, but I sometimes wonder whether that is the case. And we would very much like to work with you in that regard.

Ms. LIEBELER. We would be pleased to, Senator.

One thing just came to mind. I believe that the Administration has a task force on trade statistics that in the Office of Management and Budget Wendy Gramm is directing, and this task force may have some insights for you, although that may be a higher, more aggregated level of statistics than you are interested in. I believe that their study is about to be released and that might be somewhat useful as well.

Senator DASCHLE. Well, I think that might be helpful as of a given day, but I am looking for something more structural, something more within the daily capacity of government to utilize, whether it applies to agriculture or some other form. This may give us some good insight. But I am not sure it will be ultimately what I am looking for.

Ms. LIEBELER. We will be glad to work with you.

Senator DASCHLE. I would like that.

Let me just ask you another question. This may be the only opportunity to pursue this, so I appreciate the Chairman's indulgence here.

You work with the USTR a great deal. You serve their needs as you serve ours. You have seen the USTR work as it must in a very competitive environment. Is it your personal view, as you have seen this progression over the last couple of years, would we be enhanced as a country to have a Cabinet level USTR?

Ms. LIEBELER. Senator, I don't have an opinion on that issue. I think trade is a very important issue but you caught me by sur-

prise. I just don't have an opinion on that, and it would be my personal opinion, at best.

Senator DASCHLE. But I am just looking for your personal opinion.

Ms. LIEBELER. Sure.

Senator DASCHLE. Do you see some advantages? Let me just ask you that. Do you, as a person who has clearly had an ability to see things with a hands on experience, do you see certain advantages to strengthening the USTR to the point where you could see some advantages to a Cabinet level position?

Ms. LIEBELER. I have heard discussed a variety of proposals to consolidate all trade into its own separate department, and I have heard the debates. I honestly, sir, think that the ITC's rather narrow specific functions that it carries out really are so remote from that question that I am not in the position to make the kind of judgment you would really like me to make.

Senator DASCHLE. Well, I am afraid the real answer is that I am probably unnecessarily putting you on the spot, and I don't mean to do that.

Ms. LIEBELER. That is just fine. But to be honest, I do not have an answer.

Senator DASCHLE. They say that a good political answer is always one that is long enough for you to forget the question.

(Laughter)

Ms. LIEBELER. I will work on that.

Senator DASCHLE. You did not give me a good political answer, and I don't expect one, and sometime perhaps we can talk privately about this. But I really think that——

Ms. LIEBELER. Well, I will give it some more thought.

Senator DASCHLE [continuing].—I would like the opportunity at some point to pursue that further. Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank you, Senator Daschle.

Since Senator Daschle has already placed you on the spot, I will ask you another question which has been frequently asked of me by members of this committee relative to your views on the role of the ITC. Do you look upon the ITC as one of a quasi-judicial agency or one of a policy making agency?

Ms. LIEBELER. Well, there is only one right answer to that, Senator, I think. The ITC is not a trade policy agency. I think the reason that Congress and the Executive Branch have the confidence in the Commission that they do is because the ITC is an independent quasi-judicial agency that does not stick its nose in the trade policy.

Senator MATSUNAGA. Well, the record will so show, and I am sure a number of our members of this committee will be happy to know that.

Ms. LIEBELER. Thank you.

[The prepared statement of Ms. Liebeler follows:]

STATEMENT OF SUSAN LIEBELER, CHAIRMAN
UNITED STATES INTERNATIONAL TRADE COMMISSION
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
U.S. SENATE
FEBRUARY 27, 1987

Mr. Chairman and members of the Subcommittee, this is my first appearance before your Subcommittee as Chairman and I thank you for the opportunity to present the International Trade Commission's budget request for fiscal year (FY) 1988. Seated next to me is Richard Arnold, the Commission's Director of Finance and Budget.

The Budget Request

The budget request that I am presenting today has been unanimously approved by the Commission. Our request totals $35,386,000 and provides for 502 full-time permanent positions, including the 20 additional positions provided by Congress in the FY 1987 Continuing Resolution.

The $35,386,000 represents an increase of $1,486,000 (or 4.4%) over our FY 1987 appropriation. Our FY 1987 appropriation however, included $4,000,000 for the Commission's relocation, a one-time appropriation which remains available for relocation expenses as they occur. Thus the FY 1988 request represents a real increase of $5,486,000 (18.3%) over the $29,900,000 appropriation for FY 1987 for the operating

portion of the budget.

Our budget request includes increases totalling $5,918,000 for three non-discretionary cost items:

First, approximately $1,084,000 for increased salary costs, including anticipated step increases, promotions and related benefit increases and the January 1987 three percent cost-of-living increase.

Second, approximately $1,381,000 for the increase in retirement costs due to the new Federal Employees' Retirement System.

Third, approximately $3,453,000 for increased space rental costs at our new headquarters to which we will be moving in September 1987.

Finally, the Commission's budget request reflects a decrease of $432,000 for administration and services due to cost-savings in these areas.

This budget would fully support programs at the level authorized for FY 1987. All of our program and operational needs would be fully staffed.

Many of the Commission's substantive responsibilities involve investigations under the import relief statutes and trade and tariff-related studies under Section 332 of

the Tariff Act of 1930 (19 U.S.C. §1332). Our investigative workload has declined since its precipitous increase in 1982. In that year, 292 investigations were instituted, almost twice as many as in the previous year. Of course, a substantial portion of that increase was attributable to the filing of 92 steel cases. In FY 1985, 239 investigations, including 35 related steel cases, were instituted and in FY 1986, 214 were instituted. The Commission has projected that approximately 244 investigations will be instituted in FY 1987. Data from the first quarter FY 1987 reveals that fewer new investigations have been initiated than initially projected. At this time, however, uncertainty over the final form of any new trade legislation and its impact on the workload of the Commission precludes any revision of the original estimate.

Import Relief Investigations

Investigations under the antidumping and countervailing duty statutes (Title VII) continue to consume a large part of the Commission's resources. Title VII caseload can be counted in various ways. A single petition filed under Title VII is usually given several investigation numbers, one for each foreign country covered by the petition and sometimes one for each separate major product, even though typically a single investigative team does all the work, a single hearing is

held, information is collected from the same group of domestic producers, and a single report is produced. When counted by investigation numbers, the Commission instituted 47 Title VII cases during the first quarter of FY 1987 and we project a total of 160 separately numbered investigations for this fiscal year. In FY 1986, 158 such investigations were instituted compared to 185 in FY 1985.

Since counting by investigation numbers may not give the most accurate picture of actual workload, we have also developed statistics on the basis of separate product groups for each petition, which I believe is a better measure of workload than investigation numbers. The Commission instituted a total of 87 product line investigations in FY 1986 compared to 102 in FY 1985. Eighteen investigations were instituted during the first quarter of FY 1987. Regardless, however, of which system is used, approximately 15% fewer dumping and countervailing duty investigations were filed in FY 1986 than in the previous year. Thus the caseload in this area appears to have leveled off.

Some of the agency's more publicized cases are our so-called fair-trade cases. They are so described because petitioners need not allege any unfair trade practice in order to obtain relief. Most of these import relief petitions are filed under section 201 of the Trade Act of

1974 (19 U.S.C. §2251). Under this statute, commonly referred to as the "escape clause," the Commission must determine whether increased imports have been a substantial cause of serious injury, or threat thereof, to a domestic industry. In FY 1986 the Commission decided five of these cases, involving wood shakes and shingles, apple juice, metal castings, steel fork arms, and electric shavers. The Commission has projected that it will have six such cases both in FY 1987 and in FY 1988. However, as of the fifth month of this fiscal year we have instituted only one such case. The investigation is in response to a petition by the stainless steel industry to extend the relief previously granted it in an escape clause proceeding.

We anticipate that another kind of fair-trade case will be underway shortly. It is my understanding that the United States Trade Representative will soon request the Commission to investigate whether rapidly increasing imports of certain tungsten compounds from the Peoples Republic of China are a significant cause of material injury, or threat of material injury, to U.S. producers of this product. This investigation would be conducted under Section 406 of the Trade Act of 1974 (19 U.S.C. §2436).

Finally, we expect that about 25 percent of our investigative resources will continue to be devoted to cases brought under section 337 of the Tariff Act of 1930

(19 U.S.C. §1337). These cases involve alleged unfair methods of competition and unfair acts in the importation or sale of articles into the United States. These investigations typically involve the infringement of an intellectual property right, such as a patent, trademark, or copyright. Currently, our largest section 337 investigation involves claims by Texas Instruments that ten of its semiconductor patents are being infringed by Japanese and Korean producers. A number of Japanese producers have recently entered into settlement agreements with Texas Instruments.

We have projected that the 337 caseload will increase to 32 in FY 1987 from 29 in FY 1986. However, as of the fifth month of the fiscal year we have instituted only 6 such cases, with institution decisions pending in 2 more. The slow down in filings may indicate a decline in the use of Section 337. It may be, however, that potential complainants are waiting to see if legislative changes will be made to section 337.

Economic Studies and Reports

The Commission is frequently called upon by the Congress and by the President to conduct investigations on trade and tariff issues under Section 332 of the Tariff Act of 1930 (19 U.S.C. §1332). During FY 1986 the Commission initiated 19 Section 332 studies in response to requests from the Congress and the President, compared to

20 in FY 1985. The Commission self-initiated one study in FY 1986 and 4 in FY 1985. All 16 studies currently underway or imminent result from legislative or executive requests.

The most ambitious of the current projects examines several domestic industries. At the request of the Senate Finance Committee, the Commission is studying the competitiveness of six industries: textile mills, building-block petrochemicals, steel sheet and strip, automotive parts, optical fibers, and oilseeds and certain by-products. The Commission held a hearing earlier this week on these industries. Other current studies cover precious metal jewelry, developing-country debt problems, a possible U.S.-Canada free-trade arrangement in services, standardization of rules of origin, and Canadian live cattle and beef.

Section 332 studies recently completed addressed U.S.-Mexican trade, the tuna industry, the Generalized System of Preferences, vegetables produced in the Great Lakes states and in Canada, the effect of tax reform on competitiveness, and a proposed free-trade area between the U.S. and Canada. I have listed here only some of the studies recently conducted or currently underway at the Commission.

The ITC will continue to play an important role with respect to the Harmonized System. We expect that the

Commission staff will be called upon to provide technical advice and support for the Article XXVIII negotiations under the GATT relating to the Harmonized System, as well as for ongoing discussions at the Customs Cooperation Council. In anticipation of U.S. implementation of the Harmonized System, we are also preparing for the maintenance of the official version of the U.S. tariff schedule as well as associated cross-references from the current to the new tariff schedules.

The Commission also continues to produce a large number of periodic reports on specific commodities, including automobiles, heavyweight motorcycles, footwear, rum, brooms and mushrooms, and on the performance of the steel industry. The Commission always provides copies of these reports at no charge to Congress, the Executive Branch, and other agencies. The Commission does, however, incur considerable additional printing, mailing and distribution costs by giving many hundreds of copies to other requestors outside the government. Although some of these reports are done in response to statutory requirements, a recent General Accounting Office study of the ITC has recommended a review of the need for the frequency and extensive distribution of many of the Commission's reports. GAO also recommended that the Commission consider charging user fees as provided in 31 U.S.C. §4701. In responding to these recommendations, we

will work with Congress and the Executive Branch to ensure that their needs are met and that the Commission's resources are being used efficiently.

In addition to these reports, we provide numerous background reports on proposed legislation to the Commission's oversight committees. During FY 1986, 107 such reports were provided on proposed legislation, and a great deal of informal assistance was also provided. We project that these demands will continue at past levels.

Litigation Workload

Unlike some other agencies, the Commission has independent authority under 19 U.S.C. §1333(g) to argue its own appeals, rather than referring them to the Department of Justice. The number and complexity of Commission decisions on appeal has increased steadily since the early 1980's, from 39 active cases in January 1984 to 75 in January 1986. The workload appears to have leveled off in a range of 65 to 75 active appeals.

To accommodate this workload, the Commission increased the authorized full-time permanent staff in the Office of the General Counsel from 34 in FY 1986 to 45 in FY 1987. The Office of General Counsel is recruiting actively at this time and with 45 authorized positions it will be able to meet current and foreseeable needs.

Relocation

In September 1987 the Commission will move to our new headquarters at 500 E Street, S.W, where all of our staff will be together at one location. We look forward to improved working conditions and appreciate the strong support of our oversight and appropriations committees for this move. The Commission, in close consultation with GSA, will soon begin to spend the $4,000,000 provided in FY 1987 for relocation expenses. These funds will remain available for relocation expenses incurred after this fiscal year. Based on our experience thus far, the $4,000,000 will be sufficient to meet our requirements.

Conclusion

It is likely that trade and trade legislation will remain in the forefront of public debate for the next few years. As a result, the Commission will continue to play a very important role in its quasi-judicial determinations under the trade laws. In addition, the independence and expertise of the Commission will continue to attract requests for data and analysis of trade issues. New rounds of trade negotiations begun in Punte del Este may create demands for the Commission's comment and advice. The growing demand for sophisticated analysis in import relief investigations and fact-finding studies will require greater expertise in both international trade and industrial organization at the Commission. One step

toward this goal is an active in-house training program to improve the skills of the professional staff in economic, financial, accounting and statistical analysis. We have also intensified our efforts to attract first-rate professionals to add to the highly dedicated, skilled staff of the Commission.

It is important that Congress have confidence in our ability to provide sound analysis and data to trade policy makers and at the same time to fulfill our responsibility for investigating claims under the import relief laws. I believe that the Commission's budget request for fiscal year 1988 will provide us with sufficient resources to meet these demands. I understand that additional duties are being contemplated for the Commission. If we find that we need additional resources to accomplish them, we would not hesitate to request additional funds. I will be pleased to answer any questions you may have.

Thank you.

Senator MATSUNAGA. Thank you very much. Do you have anything to add, Mr. Arnold?

Mr. ARNOLD. No, sir. I concur with everything the chairman said. Thank you.

(Laughter)

Senator MATSUNAGA. I can see longevity in your hire.

(Laughter)

Senator MATSUNAGA. Our next witness is the Vice President for International Trade Affiars of the American Electronics Association, from Fairfax Station, Virginia, Mr. William K. Krist. Mr. Krist, will you come forward? We will be happy to hear from you.

[The prepared statement of Ms. Liebeler follows:]

STATEMENT OF WILLIAM K. KRIST, VICE PRESIDENT FOR INTERNATIONAL TRADE AFFAIRS, AMERICAN ELECTRONICS ASSOCIATION, FAIRFAX STATION, VA

Mr. KRIST. Thank you very much, Mr. Chairman, Senator Daschle.

With your permission, I would request to submit my statement for the record and just summarize it very briefly in a couple of minutes.

Senator MATSUNAGA. Your statement will appear in the record in full as though presented in full.

Mr. KRIST. My name is William Krist. I am Vice President for International Trade with American Electronics Association.

Before doing this, several years ago I was the Assistant U.S. Trade Representative for Industrial Trade Policy, and had been in the Administration and trade agencies for a good bit over a decade.

We very much appreciate the opportunity to testify today and make comments on the authorization request for the U.S. Trade Representative's fiscal year 1988 budget.

The American Electronics Association is the largest association for the U.S. electronics industry. We have about 2,800 members in all areas of it, from semiconductors, and computers, and telecommunications software and so forth. Our industry has had a phenomenal growth rate over the past decade, adding over a million jobs. We think that one of the key elements of that has been our basic system of open and free trade. And in order to continue growing, we think it is critical that we have an open trading system and make substantial progress on getting rid of the remaining barriers and distortions in trade.

The U.S. Trade Representative's office we see as a critical lead office for this, and feel very strongly that the USTR needs full resources in order to deal with these problems.

To make progress, we look at the need for a 3-track approach, basically the multilateral approach, as Ambassador Yeutter has well underway, but, in addition, the need to have extensive bilateral progress and discussions, and also to make progress on dealing with foreign unfair trade practices.

On the bilateral, the Canadian talks are critically important to electronics, and the extensive and very time consuming discussions with Japan under the MOSS talks and electronics, telecommunica-

tions, medical equipment are very critical and require a lot of follow up and monitoring.

The unfair trade practices, they are getting more complicated now. On the semiconductor agreement that was reached with Japan last July, unlike a lot of previous 301s, where an agreement is set, and then people can go on to other work, if that agreement is to achieve its objective and to avoid hurting user industries, it requires a lot of time and effort in the implementation phase.

On a related trade problem, and the kind of thing we think that is very necessary is what the Administration is doing on Brazil informatics, where you have an extremely large economy, the eighth largest in the world, with a very restrictive trade investment regime, and also very substantial economic problems. In our view, the best way to deal with these things is to have adequate resources, and time and energy and flexibility, rather than an inflexible requirement on the Administration. What we want to have is access, and that requires a lot of effort.

We think in 1988 it is going to be important to pursue these bilateral and unfair complaints along with the multilateral. And so we fully support their request for additional resources for USTR to meet these needs that we see coming down the road.

Thank you very much, Mr. Chairman.

[The prepared written statement of Mr. Krist follows:]

STATEMENT OF MR. WILLIAM K. KRIST
ON BEHALF OF THE
AMERICAN ELECTRONICS ASSOCIATION
BEFORE THE
SENATE FINANCE COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL TRADE
FEBRUARY 27, 1987

Mr. Chairman, my name is William K. Krist. I am Vice President of International Trade Affairs for the American Electronics Association. Prior to joining AEA in June of 1984, I was Assistant U.S. Trade Representative for Industrial Trade Policy. AEA welcomes the opportunity to join with this Committee in its deliberations concerning authorization for the Office of the United States Trade Representative which, in spite of its relatively small size and limited budget, continues to play an instrumental role in strengthening the world trading system.

AEA is the largest trade association of the electronics industry, with over 2,800 high tech electronics member firms. As you know, electronics has become an increasingly important segment of our economy; our industry is now the largest manufacturing employer in the country. Our association represents manufacturers of telecommunications equipment, semiconductors, computers, components, instruments, software and other electronics products.

AEA TRADE PHILOSOPHY

Before I address the question of resources which is before this Committee, allow me to give a brief overview of AEA's trade

philosophy and describe the importance which we ascribe to the USTR's role.

AEA has as its primary goal to achieve a global trade environment that promotes, to the maximum extent possible, truly free, open, and vigorous competition in international electronics markets. Progress toward this goal requires both multilateral and bilateral efforts aimed at reducing barriers to access of foreign markets as well as vigorous enforcement of U.S. rights against unfair foreign trading practices. As you know, the USTR's office is the primary actor in each of these functions. In addition to other responsibilities, USTR has, for example, recently launched the Uruguay Round of multilateral trade negotiations, not to mention a host of bilateral negotiations with trading partners such as Japan, Korea, Canada, and Brazil, among others. All of these efforts place a heavy burden on the resources of the USTR. Consequently, we support the Administration's request for authorization of additional resources which will be devoted to trade matters.

MULTILATERAL TRADE NEGOTIATIONS

Ambassador Yeutter has made an excellent start in launching the Uruguay Round. This Round is particularly important since U.S. firms, including telecommunications and electronics firms, face significant barriers to trade which have not been eliminated in previous negotiating rounds, such as restrictive procurement and

some high tariffs, or which are only minimally covered by the rules, such as services. Whereas the authority to retaliate under Section 301 can be effective, it is impractical, as the USTR has emphasized, where problems are widespread or where there is no international consensus over the fairness of the practice. USTR has recognized, and has actively asserted, that the most effective way to comprehensively address these barriers is through international negotiations. USTR is in a position to press for new regimes for ensuring that trade is free and fair in areas where the GATT has not been active, such as intellectual property services and trade-related investment.

We believe this negotiation process is critical. For example, after three years of negotiations, a GATT committee in November 1986 approved a new procurement code that would allow greater access by foreign companies seeking government procurement contracts and give them a greater opportunity at bidding for such contracts in a greater number of fields. This code will take effect in January 1988, after member countries have been able to write its provisions into their own domestic laws. While waiting for the code to come into force, the GATT will launch a two-pronged work program in 1987 to cover negotiation of an increase in entities covered by government procurement contracts, taking into account such sectors as telecommunications, heavy electrical products, and transportation equipment. Then, the GATT will work

to add the services sector into the procurement code, as efforts are being made to incorporate services into the upcoming Uruguay Round.

BILATERAL EFFORTS AND ENFORCEMENT OF U.S. RIGHTS

Bilateral negotiations undertaken by USTR have also made substantial progress in vital trade areas. With respect to the Canadian Free Trade Area discussions, we applaud the Administration's position on the importance of liberalizing telecommunications and high technology market access in Canada, the largest U.S. trading partner. This is a tough process. USTR has identified the right issues, and we support them in pressing forward vigorously in these areas. Trade between our two countries has the potential to expand enormously, to the benefit of many sectors of our economy.

In Japan, the MOSS talks have already produced important results. A number of market-opening measures are being implemented, while talks continue in other areas. In the telecommunications field, the Japanese market has been opened wider to American radio equipment and services, terminal equipment, and network services. In electronics, measures have been approved which should improve access by U.S. companies to the Japanese market, including tariff reductions, participation by U.S. companies in Japanese R&D projects and standards development, and legal protection for semiconductor chips and computer software. Further, barriers to

imports of American medical equipment and pharmaceuticals have been reduced by simplifying regulatory procedures, eliminating administrative delays, and making the rules and regulations more understandable. In March of last year, auto parts negotiations were also begun.

The agreement with Japan's Nippon Telegraph and Telephone Company (NTT) has also, of course, been important to the U.S. telecommunications industry. In December 1986, Japan agreed to a three year renewal of the bilateral agreement on procurement of telecommunications equipment by NTT. Under this agreement, the government of Japan must provide non-discriminatory treatment for U.S. products in procurement, helping to protect the ability of U.S. suppliers to compete in a market that formerly was closed to foreign suppliers.

Two particular 301 cases are of great importance to our Association: the agreement reached with Japan July 31, 1986 on semiconductors, and the case initiated by the Government against Brazilian informatics. Under the U.S. Japan semiconductor agreement, on July 31, 1986, Japan agreed to open its market to sales of U.S. semiconductors, which is expected to increase semiconductor exports by $2 billion in five years. Along with these market access provisions, the agreement also attempts to deal with dumping of semiconductors in world markets. This agreement is extremely complicated and, unless administered in a careful manner, can easily injure the U.S. industries that depend

on semiconductors for their production. Unlike many previous 301s, this agreement continues to require time and effort in implementation.

The Brazil case is also extremely important and complex. Brazil is the eighth largest free world economy; yet in the informatics area it has one of the most restrictive trade and investment regimes of any country. We are also mindful of Brazil's real economic problems. Our objective is access to that market. Achieving that access will require substantial skill by our negotiators.

Both these Brazil and Japanese cases illustrate the complexity of trade problems today. The U.S. needs to recognize this complexity by ensuring that our trade agencies have adequate resources.

With respect to the GSP program, Ambassador Yeutter announced on January 2nd, at the end of a two-year General Review, that the level of duty-free GSP benefits available to advanced developing countries would be cut by 23 percent, or an estimated $2 billion dollars. Intellectual property protection was a central consideration in final decisions concerning benefits. In fact, the Review marked a significant step in encouraging improved protection of intellectual property rights and the elimination of foreign trade barriers to U.S. goods, services, and investments.

The USTR has been particularly effective in emphasizing how important the protection of intellectual property rights is to U.S. competitiveness. USTR has and must continue to work globally to gain more effective protection for patents, copyrights, trademarks, and other intellectual property rights. On the bilateral front, USTR efforts have included holding bilateral consultations with over 30 countries, using section 301 action, and implementing the intellectual property rights provisions of the GSP and the CBI programs. Further, an international agreement was obtained to include intellectual property rights in the Uruguay Round of trade negotiations, and now a negotiating group on intellectual property rights has been established in that forum.

We believe that USTR's efforts worldwide to combat foreign unfair trade practices and trade barriers in all sectors are important to the U.S. economy should be continued and expanded. USTR action to open foreign markets has been effective, and in fact essential to U.S. economic growth.

Mr. Chairman, we firmly believe that USTR has provided meaningful leadership during an exceedingly complex time in world trade. We wish to underline our own support, and indeed, to suggest that enhanced funding and staffing is deserved and desirable.

Senator MATSUNAGA. Thank you, Mr. Krist.

Now having been on the inside and now looking from the outside, do you see things differently?

Mr. KRIST. Yes, I guess I do. I guess I see from industry's perspective now even more the need to have a strong U.S. government leadership on international trade issues.

I thought more when I was in government that the private sector needed to be more aggressive, and I think they do, but I think only the U.S. government is capable of really taking on foreign government problems and barriers, and negotiations. And I think only the government is capable of pulling together a concensus and a coherent approach that is in the national economic interest.

Senator MATSUNAGA. And do you agree with the lean approach in personnel that was represented here by the USTR and the ITC?

Mr. KRIST. Well, this is a very difficult, and it is related to Senator Daschle's question, and I, in all honestly, have gone back and forth on it in my mind a lot. I think basically, yes, I do. I think the trade agencies need to have a lot of resources. And I think that—I was responsible in the Tokyo Round for the Commerce Department's support of USTR in the Tokyo Round. And basically during that period of time, we took guidance and instruction from the USTR and the interagency process.

I think if the system works that way it can work very effectively. I think there are a lot of things that could be done to improve its working that way. But I would, in fact, support a Department—and this is a personal view. It is not a trade association point of view at all—I personally would support a Department of International Trade, but I would have a lean interagency Cabinet Department for coordination, because you have enormous problems, particulary in the coordination of agriculture and industry. And I don't think you would ever have the agricultural side and the industry side merged into that same Department.

You always have an extremely need for coordination, and I think it is best done by a lean agency where you don't arouse a lot of turf problems with a line agencies who have to implement the program.

Senator MATSUNAGA. As a representative of the electronics industry, do you find that the U.S. government is adequately staffed to handle the technical negotiations, such as the semiconductor talks with Japan or the informatics case with Brazil?

Mr. KRIST. Yes. I think they are adequately staffed. Again, I would offer though a personal thought. I don't know that I think there is sufficient technical expertise in the U.S. government. I don't know that I think there are enough people in the government, for example, who have worked in the electronics industry, understand the complexity of it.

Media Electronics Division has people who have recently come out of industry and know the industry very well. I think that there is a lot that could be done in the area of personnel upgrading, and in terms of much more extensive exchange programs between industry and government. A lot of the kinds of things that Senator Long used to push in terms of personnel upgrading and training should still be in place.

There are resources, and I think the people are very, very dedicated and hard working. But I think the technical industry analyti-

cal capability could be substantially strengthened. That is a personal view. It is not my Association's position.

Senator MATSUNAGA. As a member of the industry, are you called upon by the USTR and ITC to provide information, or facts?

Mr. KRIST. Yes. I think that particularly of all the agencies, the USTR's office has, and always had, an open door for any interest perspective, and they are very accessible to knowing industry's views.

The ITC is also. Their structure is more formal, with hearings and then a questionnaire. And I think basically that is a good process. I hear grumbling from time to time on the ITC questionnaire being detailed and imposing a lot of burden on industry. And I guess the suggestion I would make on that would be the ITC ought to prevent those—I mean, they ought to air them more with industry before they actually circulate the questionnaire.

But, yes, we think they are open to views, and accessible, and do a good job in listening to us.

Senator MATSUNAGA. Senator Daschle?

Senator DASCHLE. Thank you, Mr. Chairman.

I also welcome Mr. Krist. He certainly brings very helpful insight to our deliberations this morning, and it is good to see him again.

I would only ask one question, and that is, as the USTR sits across the table from our competitor as we negotiate, in these face to face kinds of, not necessarily confrontations, but certainly environments for communication, what one or two things would provide our person, our USTR, with more muscle, with more strength?

Mr. KRIST. Well, I guess the first thing I would mention there would be, again, the personnel upgrading to make sure that there is a lot of continuity, or sufficient continuity.

The Europeans seem to have so much continuity. People get very old and tired and take the same perspective, but the Japanese have a very good balance of people who work on it and yet a lot of career development. So I would advocate that.

In numbers, our negotiating teams were the size of the Japanese. We had sufficient numbers, and we had sufficient expertise, I think. But, again, on the second suggestion I would make, in some areas they could have more industry advisory processed into it.

The USTR uses industry advisors quite well. Certainly I think the government could use a lot more industry advisors on negotiations, for example, on export controls and cocom process.

Senator DASCHLE. When you mentioned the need for continuity and more cohesiveness, how often is the USTR in the position of having to run back to Washington for interagency approval for the support of the Secretary, himself, say, Commerce, Defense, Agriculture? The impression I have is that during these negotiations, a great deal of authority is delegated to the chief negotiator from a foreign country where we keep our USTR on a very short rein; that because of the interagency competition, perhaps, or at least lack of adequate communication, the USTR is frequently in a position of having to hold off before the U.S. can take a position in delicate negotiations.

Is that a correct perception?

Mr. KRIST. Well, I think it is importance to enhance the authority of the USTR in negotiations. The USTR, and the Commerce Department and the Agriculture Department are really the agencies that are the ones that reflect what I think is the critical issue, which is U.S. economic interests. And I think that should be the apparent lead voice, which is one of the reasons we think the authorization of resource process here is so important.

But I would not want to, in a negotiating process, I think the USTR has adequate leeway, normally, because the negotiations take a long time, and they are complicated, and you can work it through the process.

I think probably the biggest place where I would like to see the USTR's authority enhanced is in unfair trade practices, or in bilateral discussions where I think it is really imperative that U.S. economic interest be the central focus of what the discussion is about.

So I think there is something to what you are suggesting, but I think the situation is not bad right now.

Senator DASCHLE. Is having reciprosity one of the tools you give the USTR?

Mr. KRIST. Well, I think that really ought to be what the United States is looking for. But I think it is very important that it be very flexible. It is very easy to get into a box if you don't have authority to wiggle where, in trying to get reciprosity you can cause a lot more problems.

I know on all the issues that I had to handle, the flexibility was critical. But I think the focus ought to be on getting the United States a level playing field, and that comes back to your point about the need for lead authority, clearly, for the USTR in this process.

Senator DASCHLE. Thank you. Thank you, Mr. Chairman.

Senator MATSUNAGA. Thank yov, Senator Daschle.

Now, as multilateral negotiations focus less on tariffs and more on non-tariff barriers in business practices, do you see a need for a different type of negotiators than in the past?

Mr. KRIST. Well, clearly, some of the things that we want to see addressed in the new trade round are services, data transmission, that type of thing, investment, particularly the export distortions that come out of the investment process, and intellectual property protection.

And, clearly, on intellectual property protection, you need people who have a good legal understanding of what the issues are. And I think on the whole negotiating process, to the extent you can have people who have actual experience in industries that they are trying to negotiate for helps.

I think the issues are more complicated. Again, it requires a high level of technical expertise, much more than early trade rounds, where all you were doing was talking about tariffs.

Senator MATSUNAGA. It is for that reason that many of the members of this committee have been favorable towards a greater personnel budget and increased funding in recognition of the changing requirements. And I thank you for your testimony. I appreciate your coming.

Mr. KRIST. Thank you very much, Mr. Chairman.

Senator MATSUNAGA. Thank you very much.

There being no further witnesses, the subcommittee stands in adjournment subject to the call of the chair.

[Whereupon, at 11:13 a.m., the hearing was concluded.]

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